[JOINT COMMITTEE PRINT]

SUMMARY OF REVENUE PROVISIONS IN THE PRESIDENT'S FISCAL YEAR 1988 BUDGET PROPOSAL

PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This pamphlet,[1] prepared by the Staff of the Joint Committee on Taxation, provides a summary of the revenue provisions in the President's Fiscal Year 1988 Budget, submitted to Congress on January 5, 1987.

The first part of the pamphlet is a summary of the revenue proposals contained in the Fiscal Year 1988 Budget, including present law and a reference to prior action on the topic. The second part of the pamphlet presents the Administration's estimates of the revenue effects of the proposals, as they affect budget receipts.

The pamphlet generally does not describe the President's budget proposals relating to user fees or charges (other than the proposed Coast Guard user fees and proposed increase in PBGC premiums) that are not treated as "budget receipts." The pamphlet also does not include budget proposals relating to an increase in the District of Columbia employer contributions to Civil Service Retirement, Nuclear Regulatory Commission fees, or certain other similar user fee proposals which are included as budget receipt items in the President's budget.

The pamphlet also does not describe the President's Competitiveness Initiative, announced on January 27, 1987. The revenue-related portions of that initiative propose—

(a) decentralization of the financing and responsibility for the unemployment insurance program;

(b) provisions increasing legal and regulatory flexibility for research and development in the R&D tax credit, as well as certain Treasury rulings on allocation of these expenditures under Code section 861; and

(c) amending the Employee Retirement Income Security Act of 1974 ("ERISA") with regard to overfunded defined benefit pension plans and making ERISA less lenient in dealing with employer underfunding of defined benefit pension plans.

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[1] This pamphlet may be cited as follows: Joint Committee on Taxation, *Summary of Revenue Provisions in the President's Fiscal Year 1988 Budget Proposal* (JCS-2-87), February 3, 1987.

I. SUMMARY OF REVENUE PROVISIONS

A. Tax Provisions

1. Extension of Medicare Payroll Tax to All State and Local Government Employees

Present Law

Before enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) (P.L. 99-272), State and local government employees were covered for Social Security and Medicare benefits only if the State and the Secretary of Health and Human Services (HHS) entered into a voluntary agreement providing such coverage. In COBRA, the Congress extended Medicare coverage (and the corresponding hospital insurance payroll tax) on a mandatory basis to State and local government employees hired after March 31, 1986, for services performed after that date. Under present law, State and local government employees hired before April 1, 1986, still are not covered for Medicare unless a voluntary agreement is in effect. Currently, 70 percent of all State and local government employees are covered under a voluntary agreement. Medicare coverage (and the hospital insurance payroll tax) is mandatory for Federal employees.

For wages paid in 1987 to Medicare-covered employees, the total hospital insurance tax rate is 2.9 percent of the first $43,800 of wages (secs. 3101, 3111, and 3121(a) of the Internal Revenue Code). One-half of this tax is paid by the employee and one-half is paid by the employer.

President's Budget Proposal

The President's budget proposal would extend Medicare coverage on a mandatory basis to all employees of State and local governments not otherwise covered under present law, without regard to their dates of hire. These employees and their employers would become liable for the hospital insurance portion of the FICA tax, and the employees would earn credit toward Medicare eligibility based on their covered earnings.

This proposal would be effective January 1, 1988.

Prior Action

During the 99th Congress, the Senate amendment to H.R. 5300 (the Omnibus Budget Reconciliation Act of 1986 (OBRA)) included a provision similar to the President's budget proposal. This provision was deleted from OBRA before its enactment.

2. Expansion of Employer Share of FICA Tax to Include All Cash Tips

Present Law

Under present law, an employee must report to his or her employer all tips, and the employer is responsible for withholding the employee's FICA tax on these tips (Code sec. 3121(t)). The employer is not required to pay the employer's FICA tax on these tips unless the wages paid to the employee are less than the Federal minimum wage. In that event, the employer is required to pay the employer's FICA tax on a portion of tips received. Specifically, the employer pays the employer's tax on the difference between actual wages paid to the employee by the employer and the Federal minimum wage.

President's Budget Proposal

Under the President's budget proposal, all tips would be treated as wages for purposes of the employer FICA tax.

This proposal would be effective October 1, 1987.

3. Extend FICA Tax to Inactive Duty Earnings of Military Reservists and Certain Other Earnings

Present Law

The Social Security System is financed by payroll taxes imposed under the Federal Insurance Contributions Act ("FICA"). The 1987 rates of this tax are 7.15 percent paid by employers and 7.15 percent paid by employees on wages (up to a maximum of $43,800). The Act generally defines wages to include all remuneration for employment but provides specific exemptions.

President's Budget Proposal

The President's budget proposal would eliminate the exemption from the definition of wages for several categories of earnings. The exemption would be repealed for the following:

(a) wages received by Armed Services reservists for inactive duty (e.g., weekend or short-term reserve duty) (currently exempt under sec. 3121(b)(5));

(b) student earnings that currently are exempted under sections 3121(b)(6)(B), 3121(b)(10), and 3121(b)(13) (e.g., student employees of their colleges); and

(c) certain excluded family employment, i.e., earnings provided to a man who works for his wife, a woman who works for her husband, or a child under the age of 21 who works for his or her parents (currently exempt under sec. 3121(b)(3)(A)). Under present law,

children over the age of 20 who work for their parents are subject to these FICA taxes.

In addition, the President's proposal would extend FICA tax coverage to agricultural wages currently partially exempt under section 3121(a)(8).

These proposals would be effective January 1, 1988.

4. Treatment of Group-Term Life Insurance as Wages Under FICA

Present Law

The cost of group-term life insurance provided by an employer to an employee is excluded from the definition of wages for purposes of the FICA tax (sec. 3121(a)(2)). In 1987, the first $43,800 of wages is subject to a total FICA tax of 14.3 percent (secs. 3101, 3111, and 3121(a)). One-half of this tax is paid by the employee and one-half is paid by the employer.

For income tax purposes, in general, the cost of employer-provided group-term life insurance is includible in an employee's gross income to the extent that the coverage exceeds $50,000. Employer-provided group-term life insurance also is included in an employee's gross income if the coverage is provided on a discriminatory basis.

President's Budget Proposal

Under the President's budget proposal, employer-provided group-term life insurance would be included in wages for FICA tax purposes if such insurance were includible in gross income for income tax purposes.

This proposal would be effective January 1, 1988.

5. Railroad Retirement Tax Proposals

a. Increase in railroad retirement payroll tax

Present Law

The primary source of income to the railroad retirement account is payroll taxes levied on covered employers and their employees. Currently, both employers and employees pay a Tier I tax which is equivalent to the social security tax rate. In addition, a Tier II tax is paid by both rail employers and employees. These taxes are applied to compensation paid to employees, up to a maximum annual amount. Under present law, the Tier II tax rate is 14.75 percent for employers and 4.25 percent for employees. The Tier II wage base in 1987 is $32,700.

President's Budget Proposal

The President's budget proposal would increase the railroad retirement Tier II taxes by 3.0 percentage points. This increase would be achieved in two steps—a 1.5 percentage point increase, effective January 1, 1988, and an additional 1.5 percentage point increase effective January 1, 1989. Additionally, it is understood that the President's budget proposal will include as yet undetermined pro-

posals on rail sector financing of vested dual, or "windfall," benefits.

b. Extension of FUTA tax to railroad employment

Present Law

Under present law, railroad employment is not covered by the Federal-State unemployment insurance system. Instead, railroad employees are covered by a separate Railroad Sickness and Unemployment Insurance Fund, which is financed by payroll taxes levied on rail employers.

The railroad unemployment insurance (RRUI) program has permanent authority to borrow from the railroad retirement program in order to pay RRUI benefits. The Railroad Retirement Solvency Act of 1983, as modified by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), established a loan repayment tax, beginning at 4.3 percent on July 1, 1986, and changing to 4.7 percent for 1987, 6.0 percent for 1988, 2.9 percent for 1989, and 3.2 percent for 1990. The tax expires after September 30, 1990.

COBRA further provided that an automatic surcharge of 3.5 percent on the loan repayment tax base will be levied if the RRUI program has to borrow from the retirement program. The surtax proceeds are to be used to repay such loans made after September 30, 1985, and is in effect for any year if on September 30 of the prior year any principal or interest from a loan after September 30, 1985 remains unpaid.

President's Budget Proposal

The President's budget proposal would extend coverage under the Federal-State unemployment insurance system to railroad employment. In addition, a transitional program would be developed to guarantee certain levels of benefits for rail workers who became unemployed after September 30, 1987. The Railroad Sickness and Unemployment Insurance Fund would continue to finance sickness payments and to repay the Fund's debt to the rail industry pension fund.

This proposal would be effective October 1, 1987.

Prior Action

This provision has been included in prior years' budget proposals submitted by the President.

6. Repeal of Current Gasohol, Bus, and State and Local Government Highway Excise Tax Exemptions

Present Law

Revenues from excise taxes on motor fuels, tires, and trucks and trailers, and a use tax on heavy highway vehicles, are deposited in the Highway Trust Fund. Trust Fund monies are used to finance authorized expenditures from the Highway Trust Fund. These Highway Trust Fund excise taxes are scheduled to expire after Sep-

tember 30, 1988.[2] Exemptions from all or part of some of these excise taxes have been provided for fuels containing alcohol, for private and public bus operators, and for State and local governments.

Alcohol fuels.—An exemption of 6 cents per gallon is provided for gasohol blends (i.e., 10 percent pure alcohol) of diesel, gasoline, and special motor fuels. (The current general tax rate is 15 cents per gallon for highway diesel fuel and 9 cents per gallon for gasoline and special motor fuels.) A 6-cents-per-gallon exemption also is provided for neat methanol and ethanol fuels which contain at least 85-percent alcohol produced from a substance other than petroleum or natural gas. A 4-1/2-cents-per-gallon exemption is available for such alcohol blends produced from natural gas. These alcohol fuels exemptions are scheduled to expire after December 31, 1992.

Buses.—Private and public bus operators are exempt from the excise tax on tires.[3] Intercity common carrier buses, school buses, and qualified local buses are exempt from the 9-cents-per-gallon taxes on gasoline and special motor fuels. School buses and qualified local buses are also exempt from the 15-cents-per-gallon diesel fuel tax. In addition, private intercity buses receive a 3-cents-per-gallon refund (or credit) of the 15-cents-per-gallon highway diesel fuel tax. Nonqualified local buses[4] receive no exemption.

State and local governments.—Otherwise taxable products or articles used by States and local governments are exempt from all Highway Trust Fund excise taxes.

President's Budget Proposal

Under the President's budget proposal, the exemptions from Highway Trust Fund excise taxes for alcohol fuels, buses, and State and local governments would be repealed.

This proposal would be effective October 1, 1987.

Prior Action

The President proposed repealing the alcohol fuels and bus exemptions in his budget proposal for fiscal year 1987. The President also proposed repeal of the excise tax exemptions for gasohol and income tax credit for alcohol fuels as part of his 1985 Tax Reform Proposal. Those proposals were not adopted as part of either the 1987 budget measure or tax reform legislation enacted in 1986.

The Tax Reform Act of 1986 (P.L. 99-514) reduced the exemption for neat alcohol fuels from 9 cents to 6 cents per gallon, for sales or uses after 1986.

The House of Representatives has approved a bill (H.R. 2) extending the Highway Trust Fund taxes and expenditure authority for five years, through September 30, 1993. The Senate Committee

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[2] *See* the discussion below on *Prior Action* for the status of pending highway excise tax legislation.

[3] The excise tax on tires currently applies to highway tires (other than bus tires) weighing more than 40 pounds, with a graduated tax up to a maximum of $10.50 plus 50 cents per pound in excess of 90 pounds (sec. 4071).

[4] No exemption is available for buses engaged in transportation that is not scheduled and is not along regular routes, unless the seating capacity of the bus is at least 20 adults (not including the driver).

on Finance has approved a four-year extension amendment to be offered to S. 387, a bill extending highway authorizations for four years, when S. 387 is considered by the Senate.

7. Black Lung Benefit Tax Proposals

a. Increase in coal excise tax

Present Law

Producers of domestically mined coal (other than lignite) pay an excise tax on sales of coal. Since April 1, 1986, the excise tax rates have been $1.10 per ton of coal from underground mines, and 55 cents per ton of coal from surface mines, except the amount of tax may not exceed 4.4 percent of the sales price.

Amounts equal to the revenues collected from the coal excise tax are appropriated automatically to the Black Lung Disability Trust Fund. The Trust Fund pays certain black lung disability benefits to coal miners (or their survivors) who have been disabled by black lung disease in cases where no coal mine operator is found responsible for the individual miner's disease. Present law incliudes an unlimited authorization for advances, repayable with interest, from general revenues to the Trust Fund. In the Consolidated Omnibus Budget Reconciliation Act of 1985, a 5-year moratorium was provided on interest accruals with respect to any repayable advance occurring after September 30, 1985, and before October 1, 1990.

The tax will revert to 50 cents on underground coal, 25 cents on surface coal, and a limit of 2 percent of price on the earlier of January 1, 1996, or the first January 1 as of which there is (1) no balance of repayable advances made to the Trust Fund, and (2) no unpaid interest on such advances.

President's Budget Proposal

The President's budget proposal would increase the excise tax receipts to the Trust Fund by $357 million in fiscal year 1988. The proposal does not include specific tax rates; however, the $357 million amount is 54 percent of estimated receipts in fiscal year 1988 under present law. Thus, the proposal when transmitted may be expected to recommend increases of approximately 50 percent in the coal excise tax.

The Administration estimates that these excise tax changes, and other changes relating to interest payments and certain as yet unspecified benefit reforms, would eliminate the Trust Fund deficit by the year 2007. As of the beginning of Fiscal Year 1987, the deficit was $2.88 billion.

This proposal would be effective October 1, 1987.

b. Treatment of black lung income maintenance benefits as taxable income

Present Law

Title IV of the Federal Coal Mine Health and Safety Act of 1969 provided benefits for miners totally disabled by black lung disease and for dependents of miners who had died from the disease or were totally disabled from the disease at death. The 1969 act was

amended by the Black Lung Benefits Act of 1972, the Black Lung Benefits Reform Act of 1977, the Black Lung Revenue Act of 1977, and the Black Lung Benefits Revenue Act of 1981.

Black lung benefits reimburse disabled coal miners who have black lung disease for medical costs and lost income. These benefits are not taxable under present law.

President's Budget Proposal

The President's proposal would make the income maintenance portion of black lung benefits includible in the recipient's gross income.

This proposal would be effective January 1, 1988.

8. Extension of Airport and Airway Trust Fund Excise Taxes

Present Law

Excise taxes are imposed on users of the Federally financed aviation system. Receipts from these taxes are deposited into the Airport and Airway Trust Fund, and expenditures may be made from the Trust Fund for purposes authorized in the Trust Fund statute in the Internal Revenue Code.

The airport and airway excise taxes include —

(1) an 8-percent tax on air passenger transportation;

(2) a 5-percent tax on domestic air transportation of property;

(3) a $3 per person international departure tax;

(4) a 12-cents-per-gallon tax on gasoline used in noncommercial aviation;[5] and

(5) a 14-cents-per-gallon tax on nongasoline fuels used in noncommercial aviation.

Exemptions from the fuels excise taxes have been provided for aircraft museums and for certain helicopter uses which do not utilize the facilities and services of the Federal airport and airway system.

The taxes on air transportation apply to the purchase of transportation services for persons or property beginning before January 1, 1988. The taxes on noncommercial aviation fuels expire after December 31, 1987.

President's Budget Proposal

The President's budget proposal would extend the present-law airport and airway system excise taxes for two additional years (i.e., through December 31, 1989, and would provide a two-year reauthorization of the Airport and Airway Trust Fund programs (fiscal years 1988–1989).

9. Imposition of Air and Ship Travel Tax

Present Law

Present law imposes no general excise tax on international travel to and from the United States. A $3 per person international

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[5] The 12-cents-per-gallon tax is composed of the regular 9-cents-per-gallon tax on gasoline and a special 3-cents-per-gallon add-on tax.

departure tax is imposed, however, as part of the funding for the Airport and Airway Trust Fund, applicable to certain international flights exempt from the 8-percent domestic passenger ticket tax. (*See* 8., above.)

President's Budget Proposal

The President proposes to impose an excise tax of $1 per ticket for international travel to and from the United States, its possessions, and its territories by airline or cruise ship carriers. Travel to and from Canada, Mexico, and travel to the United States that originates in U.S. possessions and territories would be exempt from the tax.

Revenue from this tax would be used to support international tourism and marketing activities, defined to include planning, developing and carrying out programs to stimulate and encourage foreigners to travel in the United States. The proposal would fund the $12 million annual budget of the U.S. Travel and Tourism Administration; any revenues collected in excess of the existing USTTA budget would go into the general fund of the Treasury.

This proposal would be effective January 1, 1988.

10. Repeal of Crude Oil Windfall Profit Tax

Present Law

Present law imposes an excise tax (the "crude oil windfall profit tax") on the windfall profit element of the price of domestically produced crude oil when it is removed from the premises on which it was produced. Generally, the windfall profit element is the excess of the sale price over the sum of an adjusted base price plus the applicable State severance tax adjustment. The windfall profit element may not exceed 90 percent of net income attributable to a barrel of crude oil.

The tax rates and recent base prices applicable to taxable crude oil are as follows:

Category of Oil	Tax Rate (percent)	Estimated Base Price* (dollars per barrel)
Tier-1 Oil (Oil Not in Tiers 1 or 2)		
Integrated producer	70	$18.49
Independent producer	50	19.07
Tier-2 Oil (Stripper and Petroleum Reserve Oil)		
Integrated producer	60	20.89
Independent producer	30	NA
Tier-3 Oil		
Newly discovered oil	**22.5	27.59
Incremental tertiary oil	30	27.13
Heavy oil	30	23.11

*Estimate for fourth quarter of 1986 based on *SOI Bulletin* (Summer 1986). The estimated base price for Tier-1 oil excludes North Slope oil.

**Phases down to 20 percent in 1988 and 15 percent in 1989 and subsequent years.

Independent producer stripper well oil is exempt from the tax. Additionally, crude oil from a qualified governmental or a qualified charitable interest, certain front-end oil, certain Indian oil, certain Alaskan oil and, in the case of qualified royalty owners, up to three barrels per day of royalty production, are exempt from the tax.

The windfall profit tax is scheduled to phase out over a 33-month period, beginning January, 1991, or earlier if revenues from the tax exceed a specified amount.

President's Budget Proposal

The President's budget proposal would repeal the crude oil windfall profit tax.

This proposal would be effective October 1, 1987.

Prior Action

The Treasury Department's 1984 tax reform study proposed an immediate phase-out of the windfall profit tax as part of its comprehensive proposal on the taxation of the oil and gas industry.[6] However, this provision was not included in the President's 1985 Tax Reform Proposal or in the Tax Reform Act of 1986.

During the 99th Congress, the Senate approved legislation that would have repealed the windfall profit tax, effective October 1, 1987. The provision was a floor amendment to H.J. Res. 668, a bill to increase the Federal debt limit. H.J. Res. 668 was not enacted.

11. Imposition of Coast Guard User Fees

Present Law

The Coast Guard provides various services to recreational and commercial boaters, including inspections, licenses, navigation aids, and search and rescue operations. These services are funded from general revenues.

President's Budget Proposal

The President's budget proposes a phased implementation of user fees for certain Coast Guard services. According to the proposal, fees for direct, transactional services (e.g., issuing licenses) would be set so as to recover the actual cost of providing the service. Additional fees on as yet unspecified activities sufficient to finance other services would be set in proportion to the Coast Guard's cost of providing the service to each class of users (e.g., recreational, commercial fishing, and deep-sea and inland commercial users).

No fees would be charged for core governmental functions carried out by the Coast Guard (e.g., defense, law enforcement, and polar ice operations).

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[6] *Tax Reform for Fairness, Simplicity, and Economic Growth: The Treasury Department Report to the President*, November, 1984, Volume II, p. 243.

The budget proposal estimates total fees of $355 million in fiscal year 1988 and $474 million annually thereafter, but does not specify the fee structures.

This proposal would be effective October 1, 1987.

B. PBGC Premiums

Present Law

Under present law, if a defined benefit pension plan is terminated by a sponsoring employer with assets insufficient to pay benefits guaranteed by the Pension Benefit Guaranty Corporation (PBGC), then the PBGC pays the monthly benefits required by the particular plan, up to the guaranteed levels. Subject to certain dollar limits, the PBGC guarantees nonforfeitable retirement benefits other than those that become nonforfeitable on account of the termination of the plan.[7]

Under the Single-Employer Pension Plan Amendments Act of 1985 (SEPPA), the sponsor of a single-employer defined benefit plan may terminate the plan only in a standard termination or a distress termination. A standard termination occurs when the assets in the plan are sufficient to pay all benefit commitments. Benefit commitments generally include all benefits guaranteed by the PBGC and all benefits that would be guaranteed but for the insurance limits on the amounts or value of the benefits. In a standard termination, the plan sponsor has no further liability to the PBGC after plan termination.

A distress termination occurs in certain cases of financial hardship, such as bankruptcy, the inability of the sponsor to pay its debts when due unless the plan is terminated, or if pension costs become unreasonably burdensome due to a declining workforce. In the case of a distress termination, the sponsor is liable to the PBGC for the sum of (1) the total amount of all unfunded guaranteed benefits, up to 30 percent of the employer's net worth, (2) an amount equal to the excess (if any) of (a) 75 percent of the total amount of all unfunded guaranteed benefits over (b) the amount described in (1), and (3) interest on the amount due calculated from the termination date.

PBGC revenues include per-participant annual premiums charged to all employers with defined benefit pension plans, earnings on investments, and collections from sponsors of terminated plans. Single-employer plans currently pay an annual premium of $8.50 per participant. The PBGC has limited authority to impose a variable rate premium.

Under present law, employers are required to meet certain minimum funding standards with respect to a defined benefit pension plan.

President's Budget Proposal

Despite the 1986 increase in the premium rate (from an annual per-participant premium of $2.60 to $8.50) and the SEPPA restric-

[7] Present law requires that all benefits become nonforfeitable when a pension plan is terminated.

tions on the circumstances in which employers may terminate underfunded pension plans and shift pension liabilities to the PBGC, the termination of underfunded pension plans in failing companies is projected to increase the PBGC's deficit from $2.3 billion at the end of 1986 to $4.2 billion by the end of 1988. Cash payments to retired workers are estimated to exceed PBGC income in 1988, depleting its already inadequate reserves.

The President proposes to authorize the PBGC to charge higher premiums to those employers who do not adequately fund their pension promises. The current minimum funding requirements would be revised in as yet unspecified ways to protect both the pensions expected by workers and the PBGC.

The proposal would be effective January 1, 1988.

C. IRS Funding

Present Law

In fiscal year 1986, the IRS had approximately 96,000 employees with a total budget of approximately $3.8 billion.

President's Budget Proposal

The President's budget proposal would increase IRS funding in fiscal year 1988 by approximately $700 million, which the proposal estimates would increase fiscal year 1988 receipts by $2.4 billion. This increase would be in addition to the $5.0 billion in fiscal year 1988 receipts that the Administration estimates (in its current receipts estimates included in the budget proposal) will result from the combination of tax reform, recent increases in penalties, and more effective enforcement.

D. Certain New Treasury Department User Fees

1. Internal Revenue Service

Present Law

The Internal Revenue Service (IRS) currently does not charge taxpayers for issuing determination letters or private ruling letters. In 1984, the IRS issued 106,353 advance determination letters on the qualification of corporate and self-employed pension plans, and acted on 69,613 applications and ruling requests from tax-exempt organizations. The IRS also issued 34,246 private ruling letters in response to taxpayers' requests during 1984.

President's Budget Proposal

The President's budget proposes to impose user fees for each determination letter and private ruling letter issued by the IRS. The level of the fees is not specified. These fees are proposed to become effective on October 1, 1987.

Prior Action

This proposal has been included by the President in prior years' budget proposals.

2. Bureau of Alcohol, Tobacco, and Firearms

Present Law

The Treasury Department's Bureau of Alcohol, Tobacco, and Firearms (BATF) collects licensing fees and excise taxes on various types of firearms, pursuant to the Federal Gun Control Act (19 U.S.C. sec. 921 *et seq.*) and Code sections 5801-5872.

The Code imposes occupational taxes on brewers (sec. 5091) and on wholesale and retail dealers in liquor, wine and beer (secs. 5111 and 5121). The amount of these taxes ranges from $24 per year for retail beer dealers to $255 per year for wholesale liquor and wine dealers. BATF generally does not charge fees for permits related to alcohol and tobacco products.

President's Budget Proposal

The President's budget proposes increasing fees for services provided by BATF. It is understood that these proposals, when transmitted, may include an increase in firearms licensing fees; imposition of fees for permits to produce alcoholic beverages (pursuant to the Federal Alcohol Administration Act), to engage in certain industrial uses of alcohol (pursuant to Code sec. 5171(d)), and to procure or use certain tax-free[8] or specially denatured distilled spirits (pursuant to Code sec. 5271); and imposition of licensing fees for occupations presently covered by alcohol occupational taxes. Similar fees would also be imposed on tobacco-related permits.

This proposal would be effective October 1, 1987.

E. Customs Service User Fee

Present Law

As enacted in the Omnibus Budget Reconciliation Act of 1986, an *ad valorem* user fee is applied to all formal entries of merchandise imported for consumption in the amount of 0.22 percent during fiscal year 1987, dropping to 0.17 percent in fiscal year 1988, and expiring after September 30, 1989. The fees do not apply to articles classifiable in schedule 8 of the Tariff Schedules (including products containing U.S. components which are classifiable in item 807.00 of the Schedules).

President's Budget Proposal

The President's budget proposal would eliminate the exemption for articles containing U.S. components and would extend the fee beyond its scheduled expiration date.

The proposal would be effective July 1, 1986.

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[8] Tax-free uses covered by this provision include certain uses by State or local governments or for specified nonbeverage purposes (including laboratory and hospital uses).

II. ADMINISTRATION'S ESTIMATED BUDGET EFFECTS OF PRESIDENT'S REVENUE PROPOSALS, FISCAL YEARS 1987–1990

[Billions of dollars]

Provisions	1987	1988	1989	1990	1987–90 [1]
A. Tax Provisions:					
1. Extension of Medicare Payroll Tax to all State and Local Government Employees	.....	1.6	2.2	2.2	6.0
2. Expansion of Employer Share of FICA Tax to Include All Cash Tips	.....	0.2	0.3	0.3	0.9
3. Extension of FICA Tax to Inactive Duty Earnings of Military Reservists and Certain Other Earnings	.....	0.2	0.3	0.3	0.8
4. Treatment of Group-Term Life Insurance as Wages under FICA	.....	(*)	0.1	0.1	0.2
5. Railroad Retirement Tax Proposals:					
a. Increase in railroad retirement payroll tax	.....	0.2	0.4	0.4	1.0
b. Extension of FUTA tax to railroad employment	.....	0.1	0.2	0.2	0.4
6. Repeal of Current Gasohol, Bus, and State and Local Government Highway Excise Tax Exemptions	.....	0.6	0.6	0.6	1.8
7. Black Lung Benefit Tax Proposals:					
a. Increase in coal excise tax	.....	0.3	0.3	0.3	0.8
b. Treatment of black lung income maintenance benefits as taxable income	.....	(*)	0.2	0.1	0.4
8. Extension of Airport & Airway Trust Fund Excise Taxes	.....	1.6	2.8	3.0	7.4
9. Imposition of Air and Ship Travel Tax	.....	(*)	(*)	(*)	(*)
10. Repeal of Crude Oil Windfall Profit Tax	.....	.....	.....	.....	.....
11. Imposition of Coast Guard User Fees	.....	0.4	0.5	0.5	1.3
B. PBGC Premiums [2]	.....	−0.2	−0.4	−0.4	−1.0
C. IRS Funding	.....	2.4	3.1	3.3	8.8

D. Certain New Treasury Department User Fees:					
1. Internal Revenue Service	.....	0.1	0.1	0.1	0.2
2. Bureau of Alcohol, Tobacco and Firearms	.....	0.1	0.1	0.1	0.2
E. Customs Service User Fee	(*)	0.1	0.1	0.5	0.7

[1] Totals may not add due to rounding.
[2] This provision is characterized by negative budget outlays rather than revenue increases.
* Less than $50 million.

Source: Office of Tax Analysis, Department of the Treasury.